

EXHIBIT 35

NO. 037 | MAY 1987

Governmental Accounting Standards Series

Concepts Statement No. 1 of the
Governmental Accounting
Standards Board

**Objectives of
Financial Reporting**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

Budgets and Fund Accounting

50. The use of legally adopted budgets and fund accounting is less common for business-type activities than for governmental-type activities. Unless the business-type activity is operated as a governmental department, the review and adoption process and legal status of the budget may be different. For many business-type activities the budget represents essentially an internal management process, lacking the force of law. Similarly, because business-type organizations often perform a single function, fund accounting is not as common as it is in governmental-type activities. However, it is sometimes used as a result of bond agreements to provide controls for the protection of bondholders.

Users and Uses of Financial Reports

51. In general, the users and uses of governmental financial reports are essentially the same regardless of whether the activity is business-type or governmental-type. Some users' needs are better satisfied by separate reports of the business-type activity; others' needs can only be satisfied by using the reports of the broader general government.

52. Although this Statement does not consider executive branch personnel of general purpose governments to be primary users of external financial reports of governmental-type activities, those personnel often become more like external users when governmental business-type activities are organized separately from the governments that oversee them. When business-type activities are subsidized by direct appropriations from general government, day-to-day relationships between executive branch personnel and the business-type activity are often similar to that of other departments. But as the financial relationships become more remote, external financial reporting becomes increasingly important to the executive branch in monitoring the activities and the management of business-type activities.

53. The uses of financial reports of business-type activities generally differ only in *emphasis* from the uses of financial reports of governmental-type activities. Users of separate financial reports of business-type activities are concerned primarily with the financial condition and results of operations for that activity; they are often not concerned with comparing actual results with budgeted amounts. Investors and creditors are concerned primarily with whether the business-type activity is generating, and will continue to generate, sufficient cash to meet debt service requirements. Citizen groups and consumers use results of operations information primarily to assess the reasonableness of user charges. Legislative and oversight officials and executive branch officials review

financial reports of business-type activities from both perspectives. Depending on their legal relationships with the business-type activity, legislative and oversight officials also use financial reports to assess the potential need to subsidize the activity with general governmental revenues, or whether the general government may obtain access in some manner to the net cash flows generated by the activity. They may also want to compare actual results with budgets they have approved.

54. Investors and creditors are just as concerned with compliance with bond provisions by business-type activities as they are for governmental-type activities. Citizens' groups and legislative and oversight officials need information about effectiveness, economy, and efficiency, particularly because that information has an effect on user charges.

55. Users of a broader general government's financial report are generally concerned with the relationship between the financial position and operating results of the business-type activity and that of the general government as a whole. Those users need to determine to what extent the business-type activity depends on the general government's financial support or to what extent the general government has access to that activity's resources.

ACCOUNTABILITY AND INTERPERIOD EQUITY

Accountability

56. Accountability is the cornerstone of all financial reporting in government, and the term *accountability* is used throughout this Statement. The dictionary defines *accountable* as "being obliged to explain one's actions, to justify what one does." Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.

57. The Board is aware that applying the broad concept of public accountability to financial reporting by state and local governments creates the potential to extend reporting beyond current practice. If being accountable means being obliged to explain one's actions, what are the limits of disclosure? How does one balance the cost of providing information against the value of the public's "right to know"? The need to be accountable